

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-07 ISO-00 NEA-10 IO-10 H-02 L-03 PA-01

PRS-01 SP-02 AID-05 EB-07 NSC-05 CIEP-01 SS-15 STR-04

OMB-01 CEA-01 CIAE-00 COME-00 FRB-03 INR-07 NSAE-00

USIA-06 XMB-02 OPIC-03 LAB-04 SIL-01 /102 W

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P 290556Z OCT 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 8896

INFO AMEMBASSY JAKARTA PRIORITY

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USADB

E.O. 11652: ADS, DECLAS 1/29/76

TAGS: EAID, EFIN

SUBJECT: PROPOSED ADB LOAN TO INDONESIA FOR GARUNG HYDROELECTRIC PROJECT

FOR NAC AGENCIES

SUMMARY: ADB MANAGEMENT PROPOSES \$19.8 MILLION EQUIVALENT LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVERNMENT OF INDONESIA TO FINANCE FOREX COST OF CONSTRUCTION OF HYDROELECTRIC POWER PLANT WITH CAPACITY OF 24 MW AT GARUNG IN CENTRAL JAVA. USADB RECOMMENDS FAVORABLE NAC ACTION. END SUMMARY.

1. ADB DOC. R101-75 WITH ATTACHMENTS DESCRIBING PROPOSED LOAN POUCHES ADDRESSEES OCTOBER 29. BOARD CONSIDERATION SCHEDULED NOVEMBER 13.

2. ADB MANAGEMENT PROPOSING \$19.8 MILLION LOAN FROM ORDINARY CAPITAL RESOURCES TO GOVT OF INDONESIA. PROCEEDS
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WILL FINANCE FOREX COST OF (A) CONSTRUCTION OF HYDRO-

ELECTRIC POWER STATION WITH TWO 12 MW GENERATION SETS AND RELATED WORKS; (B) CONSTRUCTION OF ABOUT 70 KMS. OF 150 KV TRANSMISSION LINE; AND (C) ENGINEERING SERVICES. PROPOSED TERMS ARE 25 YEAR AMORTIZATION INCLUDING 4 YEAR GRACE PERIOD, 8-3/4 PERCENT INTEREST. REPUBLIC OF INDONESIA TO BE BORROWER AND PERUSAHAAN UMUM LISTRIK NEGARA (PLN) THE EXECUTING AGENCY. PROCEEDS OF LOAN WOULD BE RELENT TO PLN ON SAME REPAYMENT TERMS AT 9 PERCENT INTEREST.

3. NEARLY 70 PERCENT OF INDONESIA'S INSTALLED GENERATING CAPACITY IS CONCENTRATED ON ISLAND OF JAVA WHICH HAS ONLY 7 PERCENT OF COUNTRY'S LAND AREA BUT ABOUT TWO-THIRDS OF POPULATION. HOWEVER, JAVA'S MAJOR POWER SYSTEMS ARE NOT INTERCONNECTED, RESULTING IN HIGH PRODUCTION COSTS AND RELATIVELY POOR RELIABILITY AND QUALITY OF SERVICE.

4. IN CENTRAL JAVA, WHERE POPULATION IS PARTICULARLY DENSE, TWO 30 KV POWER SYSTEMS ARE OPERATING, PLUS NUMBER OF ISOLATED DIESEL AND MICRO-HYDROELECTRIC GENERATING STATIONS. A 150 KV SUPER-GRID IS UNDER CONSTRUCTION TO BE LINKED WITH WEST JAVA, PARTIALLY FINANCED BY USAID AND WEST GERMANY (KFW).

5. PROPOSED GARUNG HYDROELECTRIC PROJECT WOULD FORM PART OF CENTRAL JAVA TRANSMISSION NETWORK AND IS FIRST OF SERIES OF HYDROELECTRIC PROJECTS PROPOSED FOR EXPLOITING POWER POTENTIAL OF SERAYU RIVER BASIN. IT WOULD PROVIDE SECTION OF CENTRAL LINK BETWEEN TUNTANG AND KETENGER POWER SYSTEMS. WORK AT PROJECT SITE WAS BEGUN IN EARLY 1960'S, AND PRELIMINARY WORKS (ROADS, CONSTRUCTION CAMPS, SOME CIVIL WORKS) ALREADY COMPLETED AT GOVT EXPENSE.

6. PROJECT CONSISTS OF CONSTRUCTION OF HYDROELECTRIC POWER STATION ABOUT 10 KM. NORTH OF TOWN OF WONOSOBO WITH TWO 12 MW GENERATION SETS AND RELATED WORKS INCLUDING DAM, INTAKE STRUCTURE, 03, 59:0, POWERHOUSE AND SWITCHYARD; ALSO CONSTRUCTION OF ABOUT 70 KM. OF 150 KV TRANSMISSION LINE FROM GARUNG TO MAGELANG.

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7. TOTAL PROJECT COST IS ESTIMATED AT \$31.9 MILLION INCLUDING \$2.6 MILLION EQUIVALENT ALREADY SPENT BY GOVT FOR PREPARATORY WORKS AND \$2.7 MILLION INTEREST DURING CONSTRUCTION PAYABLE IN LOCAL CURRENCY BY PLN. FOREX COST INCLUDING ENGINEERING SERVICES ESTIMATED AT \$19.8 MILLION WOULD BE FINANCED UNDER PROPOSED BANK LOAN. REMAINING \$6.83 MILLION IN LOCAL COSTS WOULD BE PROVIDED BY GOVT IN FORM OF EQUITY. ESTIMATES INCLUDE

CONTINGENCY PROVISIONS OF 20 PERCENT ON FOREX COSTS AND 14 PERCENT ON LOCAL COSTS. CONSTRUCTION PERIOD IS RELATIVELY SHORT WITH COMMISSIONING EXPECTED IN EARLY 1979.

8. BANK'S GUIDELINES FOR PROCUREMENT WOULD BE FOLLOWED. CIVIL WORKS CONTRACTS OF \$200,000 OR MORE AND SUPPLY CONTRACTS OF \$100,000 OR MORE WOULD REQUIRE INTERNATIONAL COMPETITIVE BIDDING. SMALLER CONTRACTS TO BE AWARDED ON BASIS OF BIDS/QUOTATIONS FROM REASONABLE NUMBER OF CONTRACTORS/SUPPLIERS FROM MORE THAN ONE MEMBER COUNTRY. EXPATRIATE CONSULTING FIRM WOULD BE RECRUITED IN ACCORDANCE WITH BANK'S GUIDELINES TO ASSIST IN REVIEW OF WORK ALREADY COMPLETED, PREPARATION OF DESIGNS AND TENDER DOCUMENTS, SUPERVISION OF CONSTRUCTION AND INSTALLATION WORK, COMMISSIONING AND TESTING, AND OPERATING INSTRUCTIONS AND TRAINING OF PERSONNEL.

9. GOVT HAS PROPOSED THAT IT WOULD TREAT PROCEEDS OF PROPOSED LOAN AS EQUITY IN PLN IN LINE WITH SIMILAR PENDING PROPOSAL RE PAST POWER SECTOR LOANS. THIS IS PART OF COMPREHENSIVE PLAN FOR IMPROVING WORKING OF POWER SECTOR AND MAKING PLN FINANCIALLY VIABLE. (SEE PARA 10 BELOW). BANK IS STUDYING PROPOSAL AND WILL SUBMIT PAPER TO BOARD SUBSEQUENTLY. HOWEVER, BANK FEELS PROPOSED LOAN PROCEEDS NEED NOT BE GIVEN TO PLN AS EQUITY SINCE PLN IS EXPECTED TO BE CAPABLE OF CARRYING DEBT-SERVICE BURDEN AFTER PROPOSED GRACE PERIOD WHEN REPAYMENTS WULD COMMENCE.

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10. PLN, THE EXECUTING AGENCY, WAS CREATED IN 1961 AND REORGANIZED IN PRESENT CORPORATE FORM IN 1972. BECAUSE OF WEAKNESSES IN PLN'S FINANCIAL MANAGEMENT AND FINANCIAL POSITION, FRENCH CONSULTING FIRM (SOFRELEC) HAS BEEN RETAINED SINCE 1970 UNDER IDA FINANCING TO ASSIST PLN IN MANAGEMENT REFORM, INCLUDING IMPLEMENTATION OF RECOVERY PROGRAM AIMED AT PLN BREAKING EVEN BY 1978/79. WITH GUIDANCE FROM CONSULTANTS, TARIFF STUDY WAS IMPLEMENTED IN 1973 AND TARIFFS WERE SUBSTANTIALLY INCREASED; NEW ACCOUNTING SYSTEM HAS BEEN ESTABLISHED; PLN ASSETS HAVE BEEN REVALUED; AND COMPREHENSIVE TRAINING PROGRAM HAS BEEN INITIATED. ADDITIONAL TARIFF INCREASES ARE PROPOSED FOR 1975 AND 1977. PLN HAS AGREED TO PROPOSED FOR 1975 AND 1977. PLN HAS AGREED TO REVALUE ITS ASSETS AT INTERVALS TO BE AGREED WITH BANK AND GOVT.

11. BANK HAS PERIODICALLY REVIEWED PLN'S OPERATIONS IN CONNECTION WITH PREVIOUS POWER LOANS. WHILE BANK COVENANTS ARE SUBSTANTIALLY BEING MET FROM LEGAL POINT OF VIEW, MANY HAVE NOT BEEN COMPLIED WITH OR HAVE BEEN ONLY PARTIALLY COMPLIED WITH DUE TO PLN'S FAILURE TO LIMITED OFFICIAL USE

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SUBMIT ON TIME PRESCRIBED DATA AND INFORMATION AND TO HAVE CONSULTATIONS PRIOR TO ADIOTION OF MANAGEMENT REFORMS. BOTH GOVT AND PLN HAVE ASSURED STRICT COMPLIANCE WITH FUTURE LOAN CONVENANTS.

12. PROPOSED PROJECT WOULD BE BANK'S FIRST POWER FINANCING FOR DENSELY POPULATED ISLAND OF JAVA AND IS READY FOR QUICK IMPLEMENTATION. IT AIMS TO ALLEVIATE SEVERE POWER SHORTAGE CURRENTLY EXPERIENCED IN CENTRAL JAVA AREA AND IMPROVE OPERATIONAL STABILITY OF TRANSMISSION SYSTEM. BANK CONSIDERS PROJECT TO BE WELL CONCEIVED, TECHNICALLY FEASIBLE, FINANCIALLY VIABLE, AND ECONOMICALLY SOUND. FINANCIAL AND ECONOMIC INTERNAL RATES OF RETURN ARE BOTH ESTIMATED AT 10.9 PERCENT. WHILE PLN IS TECHNICALLY QUALIFIED TO CONSTRUCT AND OPERATE PROJECT, ITS FINANCIAL POSITION REMAINS WEAK. EFFORTS ARE BEING MADE TO IMPROVE ITS PERFORMANCE AND BANK CONSIDERS OUTLOOK TO BE SATISFACTORY. USADB WILL URGE BANK TO FOLLOW PLN'S PROGRESS

ACTIVELY IN ORDER TO ENSURE ITS COMPLIANCE WITH LOAN
COVENANTS IN FUTURE. USADB SUPPORTS PROPOSAL AND RECOM-
MENDS FAVORABLE NAC ACTION.

13. REQUEST JAKARTA'S COMMENTS FOR NAC AGENCIES, INFO
USADB MANILA, PURSUANT TO STATE 119795 DATED 3 JULY
1972. SULLIVAN

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